
SECTION: Abbreviated Holding Company Examination Program

Section 720

Program Guidance: This Abbreviated Holding Company Examination Program should be used to examine low risk or noncomplex holding company enterprises. Also, be sure to consider the unique characteristics of the specialized holding company structures discussed in Section 900. You should complete only those sections of the program that the EIC deems necessary to evaluate each CORE examination area and to support the overall examination conclusions. You may consult the full CORE Holding Company Examination Program (Section 730) for more detailed steps for each procedure.

C – Capital

Examination Objectives

Determine the holding company's financial resources and assess its current and prospective effect on the subsidiary thrift.

Evaluate the holding company's level of debt and capital structure.

Examination Procedures

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1. Assess the holding company's ability to service its outstanding debt and the degree the thrift is relied upon to upstream funds to service the debt. Determine whether double leveraging is occurring, and to what extent.

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2. Assess the holding company's consolidated capital structure. Consider the quantity and composition of capital. Does the holding company have enough capital to protect the subsidiary thrift from risky activities or adverse events within the holding company enterprise?

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3. Consider the effect of the company's dividend practices on its capital condition.

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4. For affiliates that are regulated by another state or federal agency, determine if there are any agreements or conditions imposed that would require the holding company to devote financial resources (such as capital contributions) to that entity. If such an agreement exists, determine the extent to which it could ultimately have an adverse impact on the subsidiary thrift.

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O – Organization Structure

Examination Objectives

Analyze ownership and control.

Determine if there is evidence that the holding company structure is designed to circumvent OTS policies.

Identify activities of the holding company and its noninsured subsidiaries to determine permissibility.

Assess what risks the activities of the holding company and its other affiliates pose to the thrift.

5. Analyze changes in the holding company’s organizational structure since acquisition or the previous examination. Obtain or prepare an organizational chart that identifies all holding company tiers and other affiliates of the thrift.

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6. Determine whether any individual or entity – directly, indirectly, or by acting in concert – has acquired control.

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7. Evaluate the risk that the activities of the holding company or other affiliates pose to the subsidiary thrift.

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R – Relationship

Examination Objectives

Assess the influence of the board of directors and management on the thrift.

Consider how integrated the thrift is in the holding company enterprise.

Consider the independence of the boards of directors of the thrift, holding company and other affiliates.

Determine if intercompany transactions are appropriate.

Examination Procedures

8. Assess the influence of the board of directors and management on the thrift. Consider the independence of the boards of directors of the thrift, holding company and other affiliates. Do any relationships appear to create a conflict of interest or usurpation of corporate opportunity?

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9. Review management's written strategic goals and objectives. Evaluate whether the organization's goals have changed, and, if so, assess how they affect the risk-profile and financial condition of the company.

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10. Assess the adequacy of internal controls, books, records and systems to ensure that the thrift maintains separate corporate identity.

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11. Determine the extent to which the operations of the thrift are integrated with the holding company and other affiliates. Assess the risks posed by integrated systems, common risk management practices, central decision making, joint marketing and delivery systems, linked market reputation, and the significance of the thrift within the structure. Evaluate whether the thrift can be insulated from adverse events within the holding company structure and carved out as a stand-alone operating entity.

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12. Analyze the tax-sharing agreement and policies, tax payments paid by the subsidiary association to the holding company, and the income tax accounting and settlement practices where the thrift does not file a separate tax return.

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13. Identify and assess the direct and indirect impact on the thrift of any significant inter-company or insider transactions such as asset purchases/sales, contracts for services, loans, or guarantees. If the transactions were conducted with the thrift, ensure that they were properly identified in the thrift's books and records and reviewed for compliance with the affiliate transaction regulations (12 CFR 563.41 and 563.42).

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14. Verify compliance with statutory and regulatory requirements.

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E – Earnings and Liquidity

Examination Objectives

Assess the trends of the holding company's earnings and cash flows.

Determine if the holding company's earnings and cash flow trends may lead it to require the thrift to provide funds through dividends or other means.

Examination Procedures

15. Review the holding company's financial statements, consolidated audit, management representation letter, and SEC filings. Identify financial trends, discussions of significant accounting practices and any material weaknesses identified in the most recent independent audit report, prior examination reports of OTS or any other regulator. Determine the relative strength of subsidiaries to holding company profitability and balance sheet strength.

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16. Identify any changes to the bond ratings of the holding company or significant affiliates. Assess the causes for any changes.

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Examiner's Summary, Recommendations, and Comments

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